

To: State Administration and Veterans Affairs Interim Committee

June 5, 2014

From: Terrence M. Smith, Finance Officer, Big Sky County Water & Sewer District 363

Active Defined Contribution Plan Member since the year of inception 2002/2003.

Appointed Board Member MPERA 8/2005 through 3/2014

I come before you not as a board member or representing the positions of the MPERA board but as an individual Defined Contribution Plan Participant.

Madam Chair,

Members of the committee I would like to thank you and your staff, first for taking the time to understand the Plan Choice Rate and second for LCsa03 wherein you address employer contributions made on behalf of the Defined Contributions Plan members.

I have been waiting for this moment for almost twelve years. The day I could go before this committee who oversees pensions and state that the payoff of the Defined Contribution Plans allocated unfunded liability from the Defined Benefit Plan's unfunded liability calculated as of June 30, 2003 has finally arrived.

I could bore you with all the trials and tribulations I have gone through to get to this point but I will not (SAVA 11/2005). Instead I would just ask that we agree that the employer contributions made on behalf of any of the retirement plan systems, PERS DB Plan, PERS DC Plan, FURS, SRS, and so on should be used for their respective retirement plan. It seems to me an obvious principle but HB 454 violated that principle by directly taking DC Plan participants employer contributions and using them for the DB Plans unfunded liabilities. It may be a legal and constitutional legislative action, the courts are currently looking at this issue, but as a DC Plan participant I find it troubling to say the least. In the case of the DC Plan, the PCR was the mechanism designed by the legislature to use employer contributions made on behalf of DC Plan participants to cover the DC Plans liability to the DB

Plan, HB 454 failed to use that mechanism. LCsa03 includes sections to change how those contributions were originally handled.

There are two items in the latest draft of LCsa03 I will comment on as a member of the MPERA DC Plan.

The first is on page 7 and 8 subsection (b) (i) (ii). I would ask that the committee amend that section by taking out (b) (ii) and end (b) (i) with a period. The disability plan is over funded and no additional employer contribution made on behalf of DC Plan participants should be added to it at this point in time. The MPERA Board has asked their actuary to provide a report on the Disability Plan contribution amount and a reduction in the current .30% is expected. Leaving that language in the draft bill would potentially increase funding to an over funded section of the DC Plan and is not prudent resource management for the DC Plan.

The second is the fact that the payoff of the DC Plan's Plan Choice Rate allocated unfunded liability is imminent under LCsa03. Attached is the summary of PCR payments and balance history. I would ask the committee to add another section to the draft bill for an automatic trigger to redirect DC PCR Employer contributions to the DC Plan member's account upon PCR unfunded liability payoff. The trigger could be effective the month after the payoff is complete and any excess funds in the month of payoff could be directed to the DC Administrative account. Without such a trigger DC Plan members will be unnecessarily harmed by not receiving their available employer contributions in a timely manner. For DC Plan participant's time is of the essence. For some of us we have waited fifteen years to see our additional employer contributions become available by this payoff. Since the committee now knows the payoff is imminent under LCsa03 the committee could prepare accordingly by adding the additional trigger for DC PCR employer contributions for the DC Plan.

Madam Chair and members of the SAVA committee I respectfully ask that you give my comments full consideration in your deliberations regarding LCsa03.

Thank you for the opportunity to address this committee and I will be available for any questions regarding any of my comments.

**Thank you,
Terrence M. Smith**

Summary of Unfunded Liabilities Allocated to the Defined Contribution Plan

Summary of the Plan Choice Rate Payments and Accrual

Prepared By: Terrence M. Smith, Finance Officer, Big Sky County Water & Sewer District 363

State Affairs and Veterans' Affairs Interim Committee June 5, 2014

Year of Inception: 7/1/2002-6/30/2003

Current employees could transfer to the new DC Plan 7/1/2002-6/30/2003

		GABA @ 1.5% Unfunded Liabilities	GABA @3% Unfunded Liabilities	Allocated to DC Plan	Investment Losses Allocated to the DC Plan	Actuarial Gain on Transfer	Interest	PCR Contributions	Balance
	6/30/1998	\$185,400,000							
	6/30/2000	-\$569,900,000							
*	6/30/2002	-\$487,500,000	\$1,000,000						
**	6/30/2003		\$236,353,000	\$10,246,000	\$0	-\$4,381,000		-\$579,000	\$5,286,000
	6/30/2004				\$9,193,000	\$0	\$423,000	-\$1,425,000	\$13,477,000
	6/30/2005				\$5,020,000	\$0	\$1,078,000	-\$1,221,000	\$18,354,000
	6/30/2006				\$413,000	\$0	\$1,468,000	-\$1,481,000	\$18,754,000
	6/30/2007				\$0	\$0	\$1,500,000	-\$1,918,000	\$18,336,000
	6/30/2008				\$0	\$0	\$1,467,000	-\$2,303,000	\$17,500,000
	6/30/2009				\$0	\$0	\$1,295,726	-\$2,606,856	\$16,188,870
	6/30/2010				\$0	\$0	\$1,187,540	-\$2,689,242	\$14,687,168
	6/30/2011				\$0	\$0	\$1,030,235	-\$2,787,635	\$12,929,768
	6/30/2012				\$0	\$0	\$894,670	-\$2,771,291	\$11,053,147
	6/30/2013				\$0	\$0	\$738,714	-\$3,042,720	\$8,749,141
Estimated	6/30/2014				\$0	\$0	\$584,731	-\$3,042,720	\$6,291,152
Estimated	6/30/2015				\$0	\$0	\$420,456	-\$3,042,720	\$3,668,888
Totals				\$10,246,000	\$14,626,000	-\$4,381,000	\$12,088,072	-\$28,910,184	\$3,668,888

Next Biennium-The PCR Unfunded Liability will be paid off.

Requires legislation in 2015 to redirect PCR funding from the employer contribution to members account.

Estimated***	6/30/2016				\$0	\$0	\$245,203	-\$4,042,720	-\$128,629
Estimated	6/30/2017				\$0	\$0	\$0	\$0	\$0

Estimated****	6/30/2016				\$0	\$0	\$245,203	-\$3,042,720	\$871,371
Estimated	6/30/2017				\$0	\$0	\$58,236	-\$3,042,720	-\$2,113,113

Source of the above information are the Actuarial Reports submitted to the Montana Public Employees Administration. Copies of all source documents are attached. Estimates are based on the prior year actual and using the computed interest for the prior period.

*6/30/2002 Actual Surplus of \$487,500,000 without 3%GABA, Actual Unfunded Liability of \$1,000,000 with the 3% GABA

** 6/30/2003 Actual Unfunded Liability of \$236,353,000 used to allocate DCRP share of the Unfunded Liabilities to be paid by the PCR.

***6/30/2016 Includes additional 1% employer contribution

****6/30/16 Excludes additional 1% employer contribution.